Music streaming

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The role and impact of music streaming services

An analysis of the role and impact of music streaming services, in particular its impact on artists' revenues can be approached from various angles, such as those of the music business, the distribution chain, various sectors of music, music 'consumption', streaming business models, payments models and the share in revenues of various actors in the value chain etc.

I. The overall impact of music streaming services on the music business and its impact on music distribution chains

Streaming was introduced as a response to the music piracy platforms of the 90s and at the beginning of the 21 century. It has changed the way music is consumed and accessed, as well as the way musicians develop their careers and make their living.

A 2019 study for the Commission 'Music Moves Europe. Final report' presents a table showing the evolution of music revenues in 2015 and the projection in 2030:

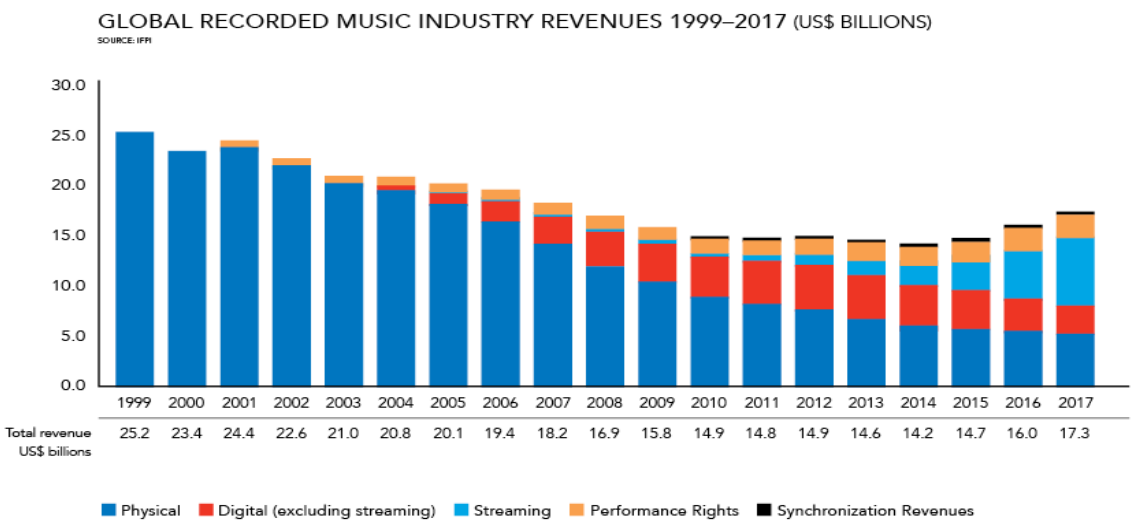
Table 2: Prospective evolution of the music market revenues 2015-2030

	2015 (in EUR billion)	2030 (in EUR billion)	Evolution
Recorded Music	20.23	47.86	136.50%
Streaming	1.19	11.99	907.10%
Physical	2.47	0.60	-75.90%
Live	21.00	88.32	320%
Publishing	4.59	7.91	72.20%
Radio	25.08	20.23	-19.30%
TOTAL	**45.82**	**88.32**	**92.70%**

Source: Goldman Sachs Research (2016) Music in the Air, Stairway to heaven & Goldman Sachs (2016)

The study points to the evolution where music-streaming revenues grow nine fold and live performance revenues three fold while the overall revenues of the sector will double in 15 years.

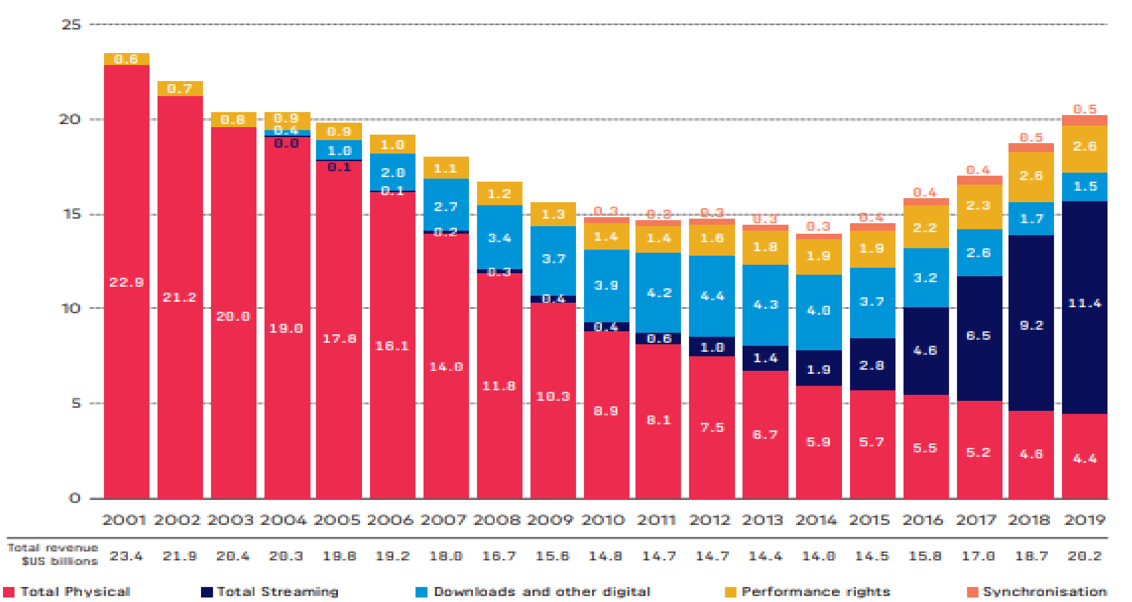
This tendency is confirmed by the publication 'Digital Music Debate - Is there a better way to compensate creators?' which presents the following graph on global music industry revenues between 1999 and 2017:



The graph shows that at first the music revenues diminished between 2000 and 2014 (due to piracy?), with this tendency slowly reversing as of 2015. However, despite a plethoric offer of paying and ad-supported music streaming services, illegal streaming of music still accounts for 23% of revenues worldwide.

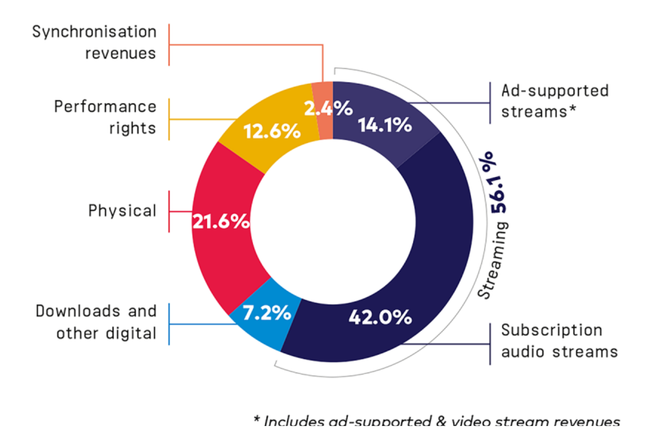
IFPI Global Music Report 2019 confirms this trend stating that in 2018, the global recorded music market grew by 9.7%, and this was the fourth consecutive year of growth. Figures in IFPI's ''Global Music Report 2019'' show total revenues for 2018 were US$19.1 billion.

Global Recorded Music Industry Revenues 2001-2019 (US$ Billions)



However, while streaming revenues grew by 22.9%, and synchronisation revenues by 5.8%, other revenues decreased: downloads and other digital formats by 15.3%, physical purchase by 5.3% and performance rights by 3.6%. This situation explains why, despite the remarkable growth in streaming revenues, overall revenues in the sector are still far below the 2001 level, not to mention the levels in the 90s.

Global recorded music revenues by segment 2019



Recorded music revenues split according to segement present still a diffrent picture and show that streaming accounts to 56.1% of which 14.1% account for ad-supporterd streams.

II. The way music streaming has changed the consumption of music over time and the way consumers discover new artists

In the 2017 publication 'Changing Their Tune: How Consumers' Adoption of Online Streaming Affects Music Consumption and Discovery' its authors (Hannes Datta George Knox Bart J. Bronnenberg) conclude that streaming largely increases the quantity and diversity of consumption in the first months after subscription to music streaming services. This tendency diminishes after the initial enthusiasm, but substantially more, and more diverse, music is consumed in streaming. Compared to a more expensive purchase of music CD or digital ownership (such as iTunes), where experimentation is expensive, streaming increases new music discovery. Not all new music experimentation results in repeated listening, but best discoveries have higher play-rates. The analysed data highlights that the adoption of streaming resulted in a long-run growth of 49% in overall music consumption across all platforms. A noticeable share of consumption on streaming services comes at the expense of ownership platforms (iTunes, Winamp and Windows Media Player). Subscribers tend to expand the variety of music they listen to, artists, songs, and genres expand. Thus, streaming increases consumers' experimentation with new music. This sort of behaviour results from the low-cost of trial and wider selection of free additional music available on streaming services. However, there are other aspects to music variety such as a possibility for an artist to feature on a platform and get some promotion.

III. The way music streaming has changed the creation of music over time

The phenomenon described above also has a less positive impact on the creation of music. The question is about the impact of music streaming algorithms on the way we consume music. This opens the perspective on another question: how internet and streaming services have changed music itself. Some authors point to the fact that music streaming algorithms lead to a common practice for tracks to feature a hook, a guest artist or a prominent sample in the first few seconds, contributing to a phenomenon known as the "Spotify sound", something that is very costly for artists to procure.

This leads to two phenomena: it has become even more frequent to have a proven blueprint for creating a hit song, which is provided automatically by the streaming platforms, leading to more homogenised music. We can see this trend in statistics. It can be noted that for example in 2013, the top 1% of artists accounted for over three-quarters of all revenue from recorded music sales. As concerns the remaining 99% of the artists and their songs, 20% of songs on Spotify had never been streamed, and a specific app called Forgotify features such music.

A Musical Genome Project is created by Pandora, a US internet service radio, to create taste-making algorithms. The project divides music into sub genres for instance it created over 350 sub genres for rap. The method consists of taking 450 musical attributes from any song to match it with other tracks, and match it to a genre to produce other songs thanks to the so-called "matching algorithms".

Another factor influencing the creation of music is that music-streaming platforms tend to pay out only if a certain amount of a song has been played. This has resulted in very short intro sections in songs. Thus, in the 80s intros lasted over 20 seconds, currently they last only 5 seconds. This could lead to less revenue for non-mainstream artists and a less diversity of content, contrary to what some publications claim (see above).

IV. Types of music streaming services, the way they work, their target groups, differences in the remuneration of songwriters and artists

IFPI Digital Music Report 2011 offered a look at various music streaming business models with a brief description. Some of these streaming business models do not exist anymore, but the report offers a perspective on what did not work.

Deezer – French-based Deezer streaming service offers both free and premium tiers. Users can access the service online or through a mobile application.

Spotify - ad-supported and subscription tiers of music streaming service.

VEVO - a US-based service distributed through YouTube that “offers users the opportunity to watch music videos and advertisers the ability to reach targeted audiences”.

In the above models, musicians are paid according to the number of streams they generated.

Music streaming platforms mentioned in the 2011 report that offered different business models but stopped their activity:

WiMP (Wireless Music Player) - was a streaming service created by Nordic digital firm Aspiro, a stand-alone service in Norway and Denmark, was also available in bundled deals through Aspiro’s business partners, notably ISP Telenor. Users could get access to nine million tracks, guiding them with facilities to create and share playlists with friends as well as offering highly localised editorial content. Users could also buy tracks to download. WiMP did not offer a free tier service, but users could try the service typically for a month without paying. The conversion rate was 70 per cent in 2011.

Mflow - was an online social music streaming service, offering recommendations and an mp3-retailing service. It allowed users to search, stream, and recommend music free of charge. There was also a streaming and download service that enabled users to discover new music through recommendations. Users could promote tracks from Mflow’s library through playlists dubbed “flows” and were rewarded with a 20 % discount off the sale price, if their recommendations were followed and resulted in purchases. Mflow was integrated with Facebook and Twitter enabling its users to invite their friends to join and publish their own “flows”.

Music:)ally (Music Ally - music business news service) provides recent data of current music streaming platforms and their business models:

Spotify with its premium and ad-supported (free) services

Apple Music with its subscription service

Amazon Music with its Amazone’s Prime Music as a part of Amazone Prime membership, claiming nearly all its customers were paying for a subscription

Chinese Tencent Music has customers buying music and on subscription

US-only streaming Pandora

Deezer has its paying service and a subscription bundled in the mobile contracts of customers

Music streaming services offer the possibility to create **playlists,** nowadays mostly created by algorithms. However, a song needs to be listened to for 30 seconds for the artist to be paid for it, which resulted in 60-second songs topping the list and pushing other pieces of music down the playlists. This approach has consequences for the whole industry and artists’ revenues. Moreover it does not fit the needs of classical music, which can consist of long minutes of arias, an hour long symphonies or some hours of listening to an opera with dozens of musicians and a couple of soloists, conductor and choir with its director.

However**, Classical music**, too moved into streaming services with currently two platforms active in the field offering different business models:

IDAGIO offering free service in an effort to democratise classical music, allowing choosing music according to listeners' moods via Mood players, or paying services offering higher sound quality and storing music offline. It offers exclusive playlists allowing users to compare various recordings of the same piece of music performed by different interpreters, and provides additional information on it.

Primephonic is focused on getting classical music artists fair income to allow them to continue being creative and proposes pay-per-second model to take into account the specificity of classical music.

While classical music represents 5% of all music, it accounts for 1% of streaming volume and 0.25% of streaming. Popular streaming platforms offer "feel good mood" classical music as a margin of their activity but the service is appreciated, which shows that there is potential. However, as discussed above, the business model of popular music does not fit the purpose of classical music, which needs more data than the artist's name. For classical music connoisseurs, the majority of potential customers of the service, this is not enough. They need to have the name of the composer, the director, the orchestra and soloists as a minimum. Thus, classical music streaming faces a metadata challenge and requires a different business models.

The classical music streaming grew by 10% in 2018, and 30% of listeners are less than 35 years old. Experts find the sector has a big potential for further development.

V. The overall impact on songwriters' and artists' income due to the shift of music consumption from physical records to online streaming

Since revenues of streaming companies grow and this does not necessarily reflect in artists revenues, more and more artists call for a fairer distribution of revenue via the 'royalties pool'.

UCPS – 'user-centric payment system' is a new model called also 'user-centric music streaming', proposed by Deezer, in order to "fix a distortion on the charts caused by the impact of younger listeners", and to avoid a "concentration on intensive users". According to Deezer's analysis, 18-25 year olds represent 19% of all of its subscribers, but generate 24% of total royalties. Data of 2018 on French streaming show that just over 40% of users stream over 100 artists per month but generate nearly 70% of royalties.

In such a situation, the pro rata system, which consists of defining the share of each artists' streams in total streams listened to, favours artists and tracks, which get the biggest number of played streams regardless of whether there was a large number of users who played the tracks a few times or a smaller number of users who played them repeatedly. UCPS directs royalties to artists not relative to their share in total streams but to their share of music fans. This means the rights are paid to the rights holders of the artists that fans listen to. Thus, the user centric model gives more direct power to users of streaming services.

A study commissioned by Finnish music organizations explored the differences between the pro rata model favouring the most listened to tracks, and the alternative user-centric model based on every individual consumer's choices. The study concentrated especially on how consumer's decisions affect the compensations paid to rights holders. The research material was provided by Spotify. The study concluded that when the overall stream count decreases, the revenue difference between the user centric and the pro rata models increases.

On the contrary, the user centric model favours artists with smaller numbers of streams. However, the results depend on the cumulative effects of both individual and user groups' listening habits.

As a result, subscribers of a music-streaming services provide revenues to the artists they listen to and not to the 'pool' of revenues, which is divided according to the pro rata system where artists receive from the 'pool' only their share in total streamed music consumption.

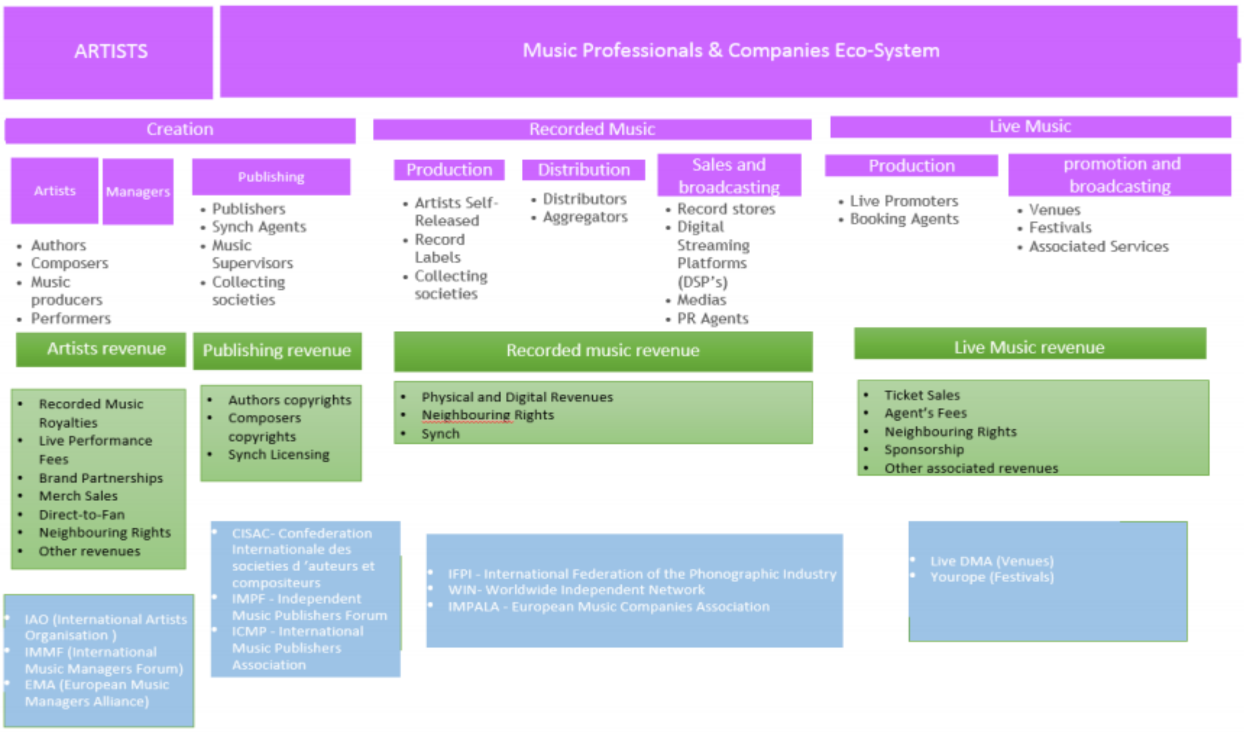
Thus, it is clear that a user-centric model would likely increase royalties for those in the middle and at the bottom, while reducing royalties for those at the top of the music ladder.

Some experts also believe the user-centric model, which is more transparent, would help prevent fraudulent streams and accounts created by hackers.

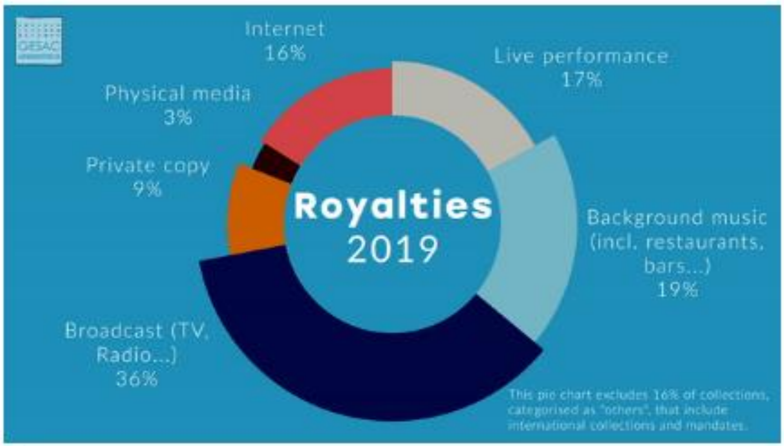
VI. Revenue or revenue distribution models for songwriters in the age of music streaming

The 2019 study for the Commission 'Music Moves Europe' already mentioned above, focuses on the export of EU music and presents a graph on the value chain in the music industry. It visualised the contribution of various actors (performing artists, songwriters, musicians, labels etc.) along the production chain according to various consumption models – live performance, physical and digital products, streaming etc., which sum up as revenues.

Figure 1: Overview of the different actors of the Music Market ecosystem involved in export activities



Source: EMEE



GESAC or the European Grouping of Societies of Authors and Composers published figures of royalty collections and broke them down to show the share of each format in artists' revenues. It points to a disconnection between the exponential growth in online music consumption and the share of this revenue stream in total revenues received by artists, which stands only at 16%.

Concerning the way revenues from music streaming are shared among various actors in the value chain, it is qualified as a black box since there are particular arrangements between the artists, publishers, labels, etc., which are not public and depend on the country. However, there is a general pattern where digital services platforms hosting the content propose rates between 60% and 70% of the share in revenues to rights holders. If we assume the share is 70% out of it, 57% will go to the recording owner, while publishers will get the remaining 13% as performance and mechanical royalties.

Mechanical royalties are paid to **songwriters**, who are the authors of the song, and their **publishers**, who own the composition and whose job it is to publish and promote it among performing artists and others. Mechanical royalties were originally paid for the mechanical production of physical media (vinyl records, cassettes, CD). Currently every stream generates mechanical royalties. **Songwriters** and **publishers** also get **performance royalties** for the public performance of their music. This is also the case of music streaming, given that nobody physically owns streamed music, it is considered to be a public performance.

Finally, **labels/producers**, who promote a recording artist, mange her or his career, produce the recording, and **distributors** of the records, are the **owners of copyright** of the recording. Labels and producers sign contracts with **performing artists** to determine how they share revenues.

According to a Goldman-Sachs publication, songwriters and publishers share their performance rights equally. These proportions change significantly when the split is between **labels** and **recording artists**, which is 87% and 13% respectively.

A 2014 publication "Study Concerning Fair Compensation for Music Creators in the Digital Age" reported an even less favourable split 94/6 and advanced a different split along the value chain in order to have a healthy ecosystem in the music industry. This could be achieved thanks to a mechanism where 80% of streaming services revenues for all right holders are split 50/50 between the recording labels/performing artists, and publishers/songwriters.

There are other complex issues that intervene in the payments to artists, which are not limited to the platform but also to the type of subscription offered to platform users and geographical location.

While one stream could get the artists on: Spotify - $ 0,0032 , Apple Music - an average of $ 0,0056, Google Play - $ 0,0055, or slightly lower - $ 0.00436 at Deezer, the rate would also vary according to whether the artists feature as international electronic, hip-hop or represent some other kind of music. Moreover, the rate will be lower for platforms operating in regions with lower levels of income thus reaching 0.00126 on JioSaavn or 0.00040 on Tencent.

One should keep in mind that higher rates do not necessarily offer better conditions if the platform does not offer other services helping artists develop their careers and reaching their public.

The 'Music Moves Europe' report highlights that the songwriters' ability to monetise their creation and recover payments depend not only on revenue distribution models but also on factors which contribute to their discoverability on streaming platforms. These include the size of their local market, the language of their lyrics (smaller languages vs dominant English, native English etc.), the export conditions of EU music content and other elements described in the 2019 report, which thoroughly analyses the place of EU music content on the global streaming stage.

Global data analysed for IFPI supports this conclusion. IFPI provides analysis of various trends in music streaming worldwide showing that local music is popular in given countries: Latin pop is listened to by almost 60% of customers in Mexico and Argentina, while 40% in Mexico and 35% in Argentina listen to regional music of the country. 69% of Koreans listen to K-pop, 65% of French listen to varieté music and 57% to French rock.

The analysis of music consumption by format and group age shows paid to download music is most popular among the age group 25-34 while music on CDs and DVDs is the favourite purchase among the age group 55-64. Interestingly, music on vinyl is more popular among people in the age group 25-34 where it became a "niche" consumption than among those between 55 and 64.

As concerns the popularity of various music genres worldwide, pop and rock are the top two, Indie/Alternative and K-Pop rank number 5 and 6. Classical music takes the last position.

However, the picture differs according to the country. In China pop is still number 1, Chinese pop number 3, classical music moves to number 6, while number 10 is Chinese traditional opera. K-pop and K-trot rank numbers 1 and 3 in Korea, with classical music/opera ranking high as number 4. Christian /Gospel music ranks ninth. Indian listeners favour local music and local traditional and spiritual music, while pop, hip-hop/rap and oldies take 5th, 6th and 7th positions. Mexico presents a similar situation and in both India and Mexico, classical music or opera do not find their place in the 10 most popular genres.

The music-streaming industry is a fast changing environment and new models appear resulting in tensions between platforms and creators.

For more details on value chains and money flows in both offline and online music, see the Appendix.

VII. Tensions among value chain actors

Tension between European music creators such as composers, authors of lyrics, and online audiovisual service providers appeared recently when the US based platforms tried to force artists into buy-out contracts which gave authors one-time payments instead for their rights. Given the growing popularity of film sound tracks, and a potentially growing share of these revenues (from the current 2.4% for synchronisation) this is of concern, since authors and composers will not benefit from the popularity of their work.

Similarly, a controversy was brought about a recent proposal by Spotify to allow artists to indicate their preferred songs to be featured on playlists, apparently, this was meant to amplify artists' visibility and input but the proposal was not welcomed warmly by authors and composers. ECSA'S (European Composer and songwriter alliance) reaction was quick in criticising an initiative, which in fact aims at cutting artists' revenues since such content would be featured at a promotional royalty rate.

Thanks to a specific piece of equipment, which is easily purchased on the market, individuals are able to copy copyrighted material and it is impossible to compensate artists' lost revenues via traditional copyright protection mechanism. WIPO, the World Intellectual Property Organisation, explains that when it comes to the so-called private copying levy "the most common system is one under which importers and manufacturers, and sometimes professional traders, are required to pay levies that apply to recording equipment or media used by individuals for their private purposes". However, although levies represent only 0.06% of their income, this is an area of tensions between authors and composers, and manufacturers of equipment, media and devices, which are mostly imported from outside the EU. CISAC, the International Confederation of Societies of Authors and Composers recently pointed in a study to the important role of private copying levies as a vital source of income for authors and composer to secure their income all over the world.

March 2019 'Rolling Stones' reports on a conflict between music streaming platforms and artists and songwriters about their shares in revenues. One of the platforms argued that "the (higher) rates (for artists) that the CRB [Copyright Royalties Board] has decided upon make it too difficult to offer discounted bundles, which are essential for getting new customers onto music-streaming services". This is no doubt an issue for a business facing competition and reaching out to new audiences.

Spotify seems to be a frequent source of tensions. Jeff Price, the CEO and founder of the digital rights reproduction collection agency Audiam, in his publication, 'The Definite Guide to Spotify Royalties' analysed the complex system of payments to labels, distributors, performing artists and songwriters (composers/lyrics writers) applied by Spotify. Analysing the background of the financial value of the platform, he concludes that: "there is the issue of a misalignment of interests: that is, is it equitable that Spotify's financial value is predicated on the number of people who use the service versus the artist that need to sell their music to make money.

This misalignment incentives Spotify to price things cheaply and/or free to drive user adoption as opposed to working with the artists to generate equitable revenue off the music. This explains why a company like Spotify that loses hundreds of millions of dollars off music is still valued in the billions, made its investors billions, but pays out fractions of fractions of pennies to the very songwriters, record labels and artists that allow it to exist, flourish and have financial value.

There is an "inherent inequality to the relationship, when a single artist, through a single song, can deliver Spotify over 20,000 of their fans while at the same time, these 20,000 fans streaming the song 200,000 times earn the artist $100 in royalties for the right of Reproduction (the Mechanical)."

VIII. Various solutions for musicians

In order to protect artists' rights the EU, adopted the Copyright Directive, while the US adopted the Music Modernization Act (MMS). The latter created a new governing body called the Mechanical Licensing Collective (MLC). It offers blanket licenses for streaming services, which could ensure larger (and faster) payments to songwriters. However, according to the author of the very detailed publication on Spotify royalties mentioned above, with the US Music Modernization Act the problems are not gone altogether. In some cases, a Self-Published Songwriter or Publishing Administrator will not be able to get their royalties, since royalties have been earned for either the sound recording or the composition/song, or the proper entity to be paid is not found, or there was an error in this respect. It can also happen the royalties were paid to a middleman who for some reason did not know who was supposed to be paid. .

According to another analysis, the EU's Copyright Directive is aimed at streaming services, which have avoided paying royalties on copyrighted music because they claimed they were merely providing a third-party platform. A system similar to the MLC in the US should lead to faster and more accurate royalty payments for rights holders, but as mentioned above is not flawless.

A publication by an American specialised journalist 'The Success Of Streaming Has Been Great For Some, But Is There A Better Way?' analyses various business models for artists' revenues from music streaming and concludes that "having more models out there means more options, and further room to experiment with possibilities that don't yet exist yet — a critical part of an ecosystem that allows for mainstream sounds to flourish alongside more experimental avenues. The perpetuating of the logic of one-size-fits-all ultimately is damaging to the very thing that makes music or culture on the margins powerful: That it presents an actual alternative". An contributes to diversity.

ECSA in its 2015 position paper listed actions needed to protect artists such as more balanced position of authors in contractual relations, an increased share of royalties paid to authors by platforms as well as higher shares for authors in advertising revenues, more transparent relations (limitation of non-evidence agreements) between labels and platforms so that authors are not excluded from this stream of revenues. More transparency is also required from CMOs (Collective Management Organisations) and audit rights for authors.

According to CISAC the new improved technology ISWC (International Standard Musical Work Code) will help authors have their music identified much quicker and thus let them have their due revenues paid promptly. This improvement shall be introduced as quickly as possible, particularly in the current context of COVID-19 related difficulties.

Main sources, and **Appendix** on value chain and money flows both offline and online for songwriters, performers and independent artists below

Main sources and publications:

IFPI issues annual Global Music Report / May 2020.

Global Music Report 2020 / IFPI, May 2020

IFPI Global Music Report 2018 / April 2018

Music Subscriber Market Shares H1 2019 / Music Industry Blog, Dec 2019

Music Moves Europe – A European Music Export Strategy / European Commission, DG EAC, 2019

The evolution of products in entertainment industry / Instytut Badan Interdyscyplinarnych, IBI, 2019

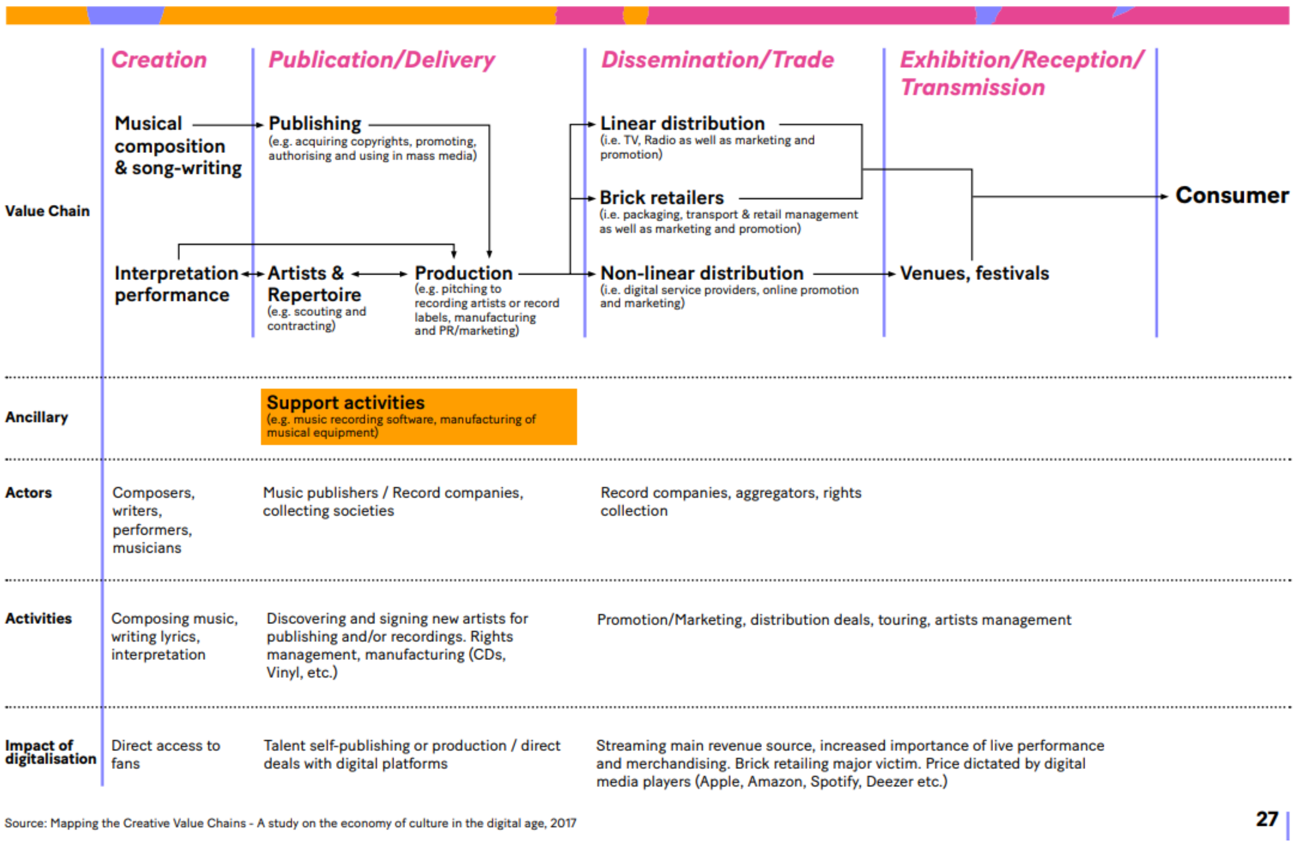
European Music In Numbers / IMPALA

Digital music consumption on the Internet: Evidence from clickstream data/ Luis Aguiar; Bertin Martens

APPENDIX

Additional materials

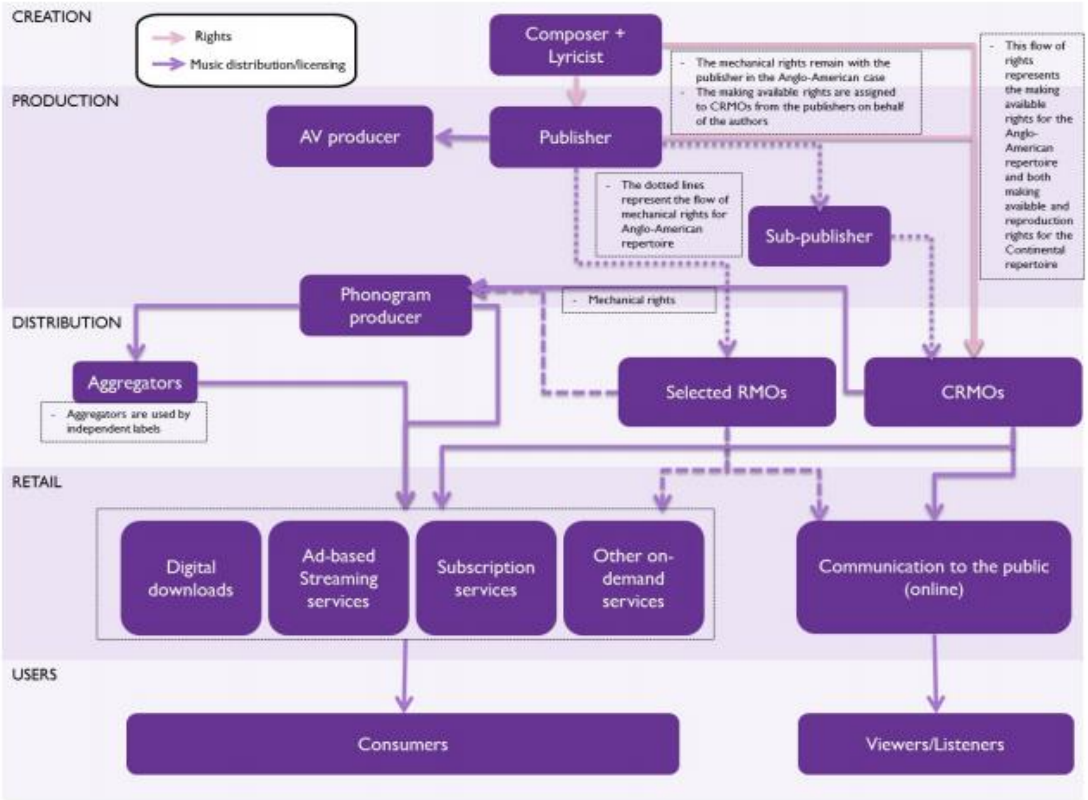
An EIF report, “Market Analysis of the Cultural and Creative Sectors in Europe” gives insight on the opportunities linked to traditional value chains in music sector and to digitalisation in various stages of the music value chain. These are opportunities, which, at the same time can be challenges such as ‘direct access to fans’ can be difficult to a new talent who individually has to build her or his artistic reputation and reach audiences in a highly competitive environment, to promote her or his works. Self-publishing or production is also a challenge since it requires equipment and skills. A young artist faces a challenge in negotiating proper deals with digital platforms where a debuting artist is not in a position of force.



Source: Market Analysis of the Cultural and Creative Sectors in Europe, EIF, 2017

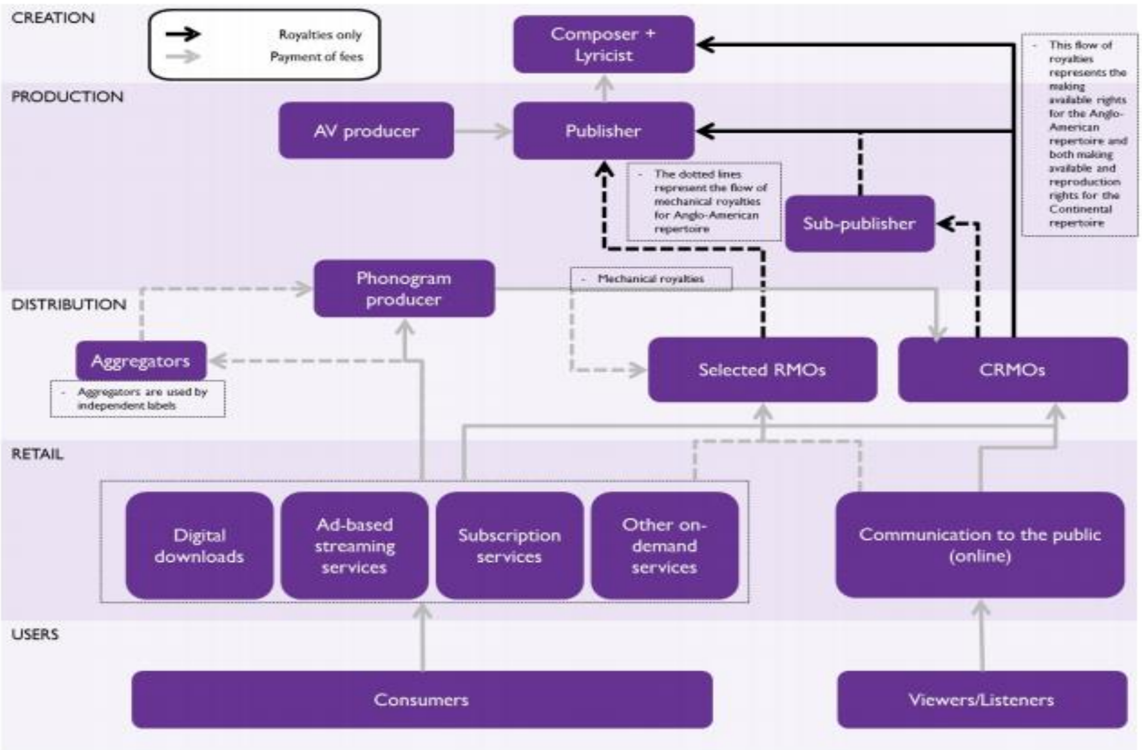
A 2015 study commissioned by the European Commission “Remuneration of authors and performers for the use of their works and the fixations of their performances” analyses both value chain and money flows in music industry. The study presents the models for online works as concerns songwriters (composers, lyrics writers), performing artists (featured artists) and session musicians, as well as independent artists (songwriters who are performing artists and do not sign with labels). The models present Anglo-American and continental artists.

Online supply chain for songwriters



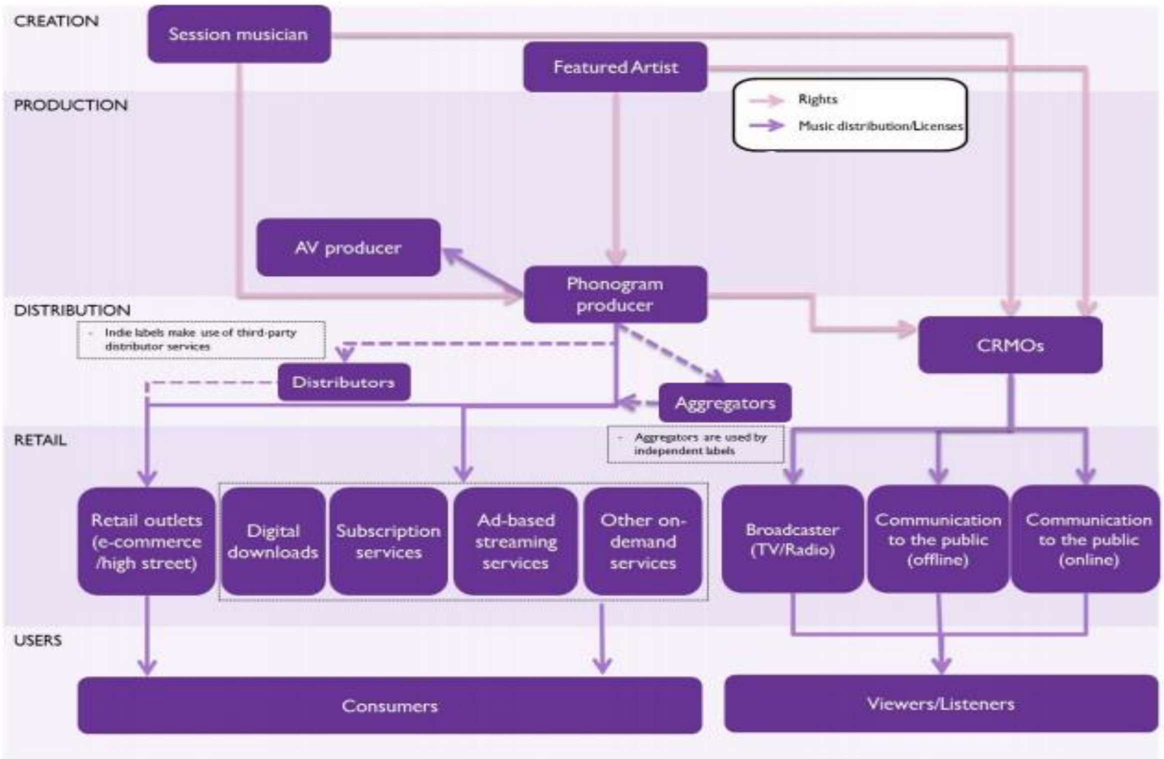
Source: Europe Economics.

Payment flows for songwriters for online distribution



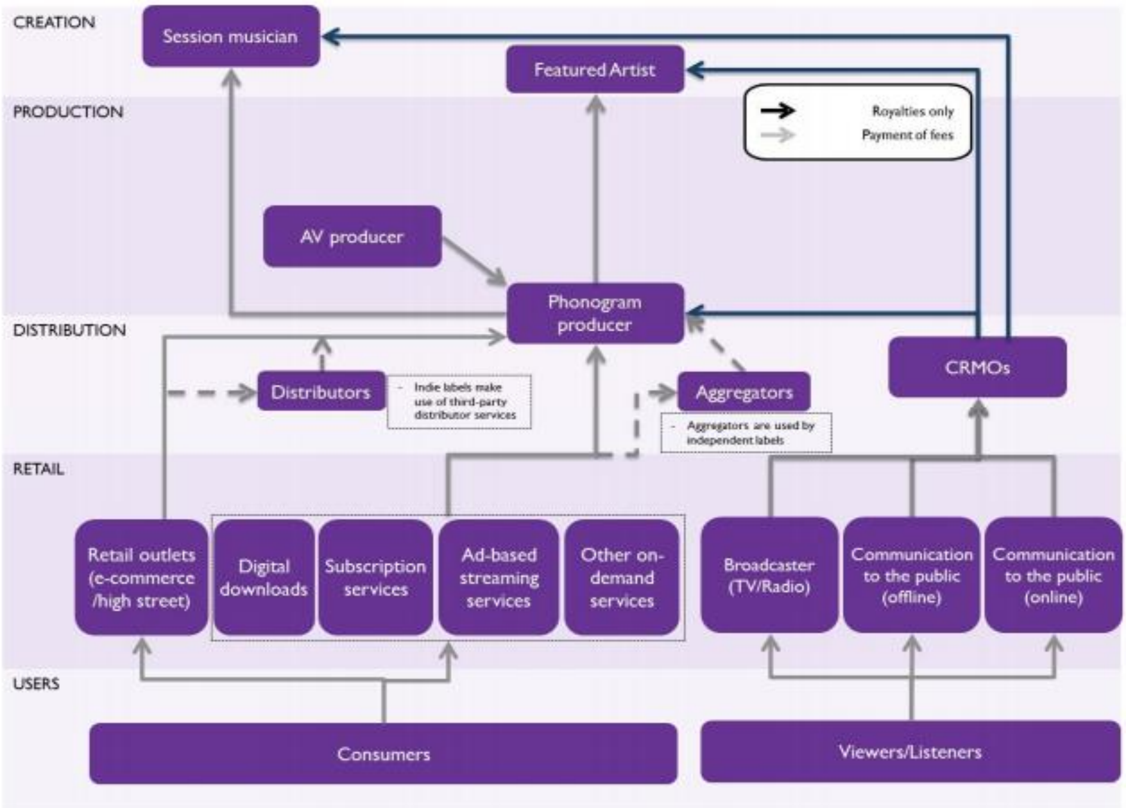
Source: Europe Economics.

Supply chain for featured artists and session musicians



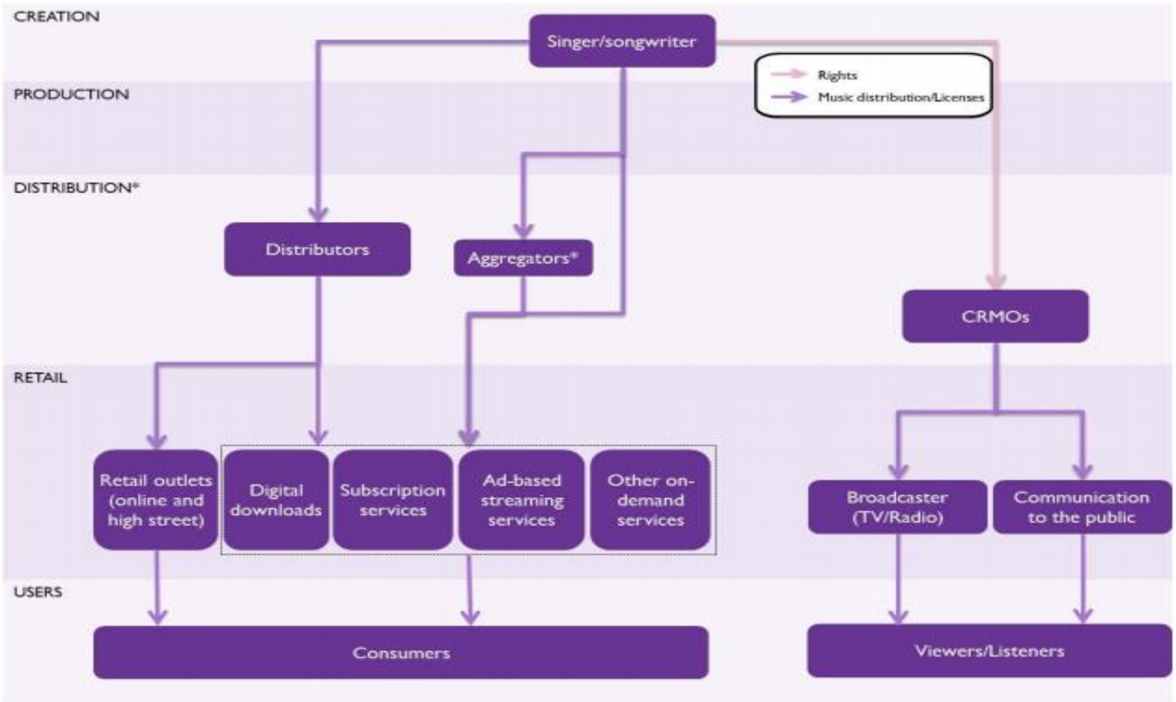
Source: Europe Economics.

Payment flows for featured artists and session musicians



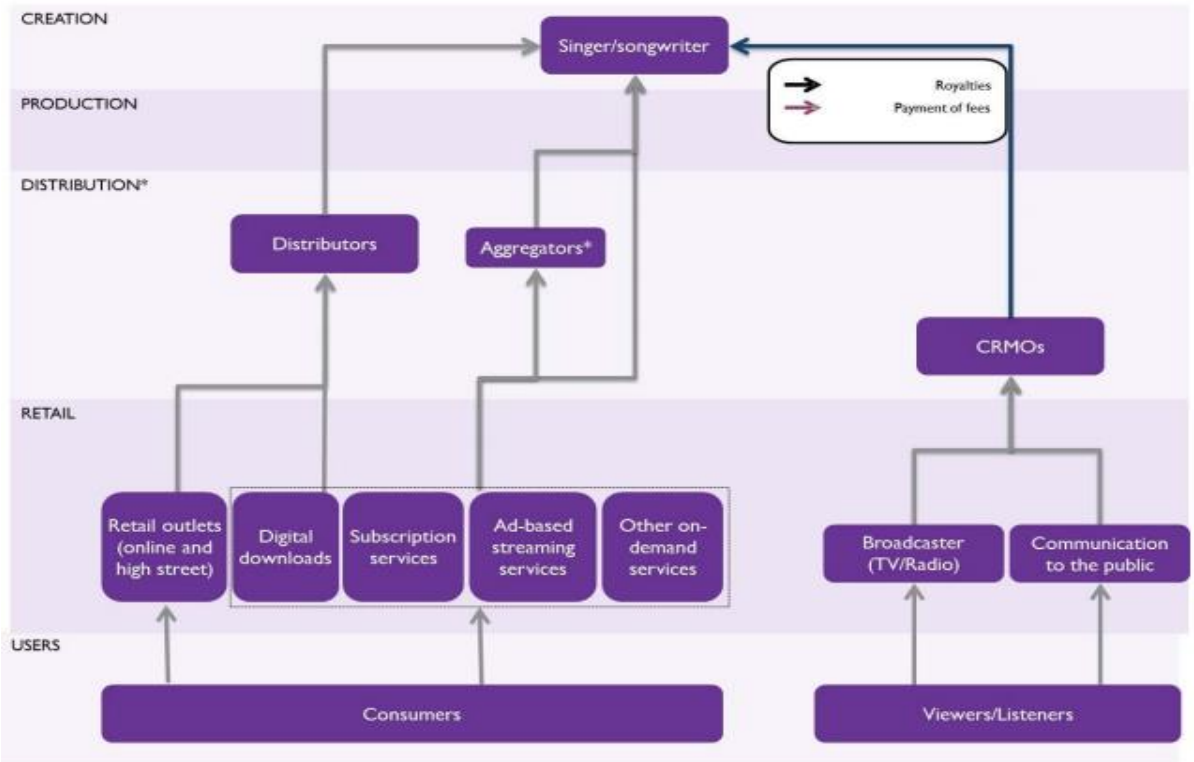
Source: Europe Economics.

Supply chain for performers (independent songwriters who are performers)



Source: Europe Economics.

Payment flows for performers



Source: Europe Economics.